

### The stakeholder approach revisited

Freeman, R. Edward

Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

Zur Verfügung gestellt in Kooperation mit / provided in cooperation with:

Rainer Hampp Verlag

#### Empfohlene Zitierung / Suggested Citation:

Freeman, R. E. (2004). The stakeholder approach revisited. *Zeitschrift für Wirtschafts- und Unternehmensethik*, 5(3), 228-254. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-347076>

#### Nutzungsbedingungen:

Dieser Text wird unter einer Deposit-Lizenz (Keine Weiterverbreitung - keine Bearbeitung) zur Verfügung gestellt. Gewährt wird ein nicht exklusives, nicht übertragbares, persönliches und beschränktes Recht auf Nutzung dieses Dokuments. Dieses Dokument ist ausschließlich für den persönlichen, nicht-kommerziellen Gebrauch bestimmt. Auf sämtlichen Kopien dieses Dokuments müssen alle Urheberrechtshinweise und sonstigen Hinweise auf gesetzlichen Schutz beibehalten werden. Sie dürfen dieses Dokument nicht in irgendeiner Weise abändern, noch dürfen Sie dieses Dokument für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen.

Mit der Verwendung dieses Dokuments erkennen Sie die Nutzungsbedingungen an.

#### Terms of use:

This document is made available under Deposit Licence (No Redistribution - no modifications). We grant a non-exclusive, non-transferable, individual and limited right to using this document. This document is solely intended for your personal, non-commercial use. All of the copies of this documents must retain all copyright information and other information regarding legal protection. You are not allowed to alter this document in any way, to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public.

By using this particular document, you accept the above-stated conditions of use.

# The Stakeholder Approach Revisited

R. EDWARD FREEMAN\*

*The purpose of this paper is to revisit the development of the stakeholder management approach developed in "Strategic Management: A Stakeholder Approach" published by Pitman Publishing in 1984. A brief history of the development of this approach is followed by a summary and an assessment of the main arguments. The approach has been used in a number of research streams which are outlined. The paper ends with some suggestions for promising lines of inquiry.*

*Keywords: stakeholders; stakeholder management; business ethics; strategic management; corporate social responsibility.*

## 1. Introduction

The purpose of this paper is to trace the development of the idea of "stakeholders" or "stakeholder management" or "managing for stakeholders" or "stakeholder capitalism". Section II is a brief history of how I came to publish *Strategic Management: A Stakeholder Approach* in 1984 by building on the work of many others. Section III is a brief summary of that book and an assessment of its strengths and weaknesses. It also outlines the revisions I would make to that book if I were writing it today. Section IV details some of the streams of research on the stakeholder idea during the last 20 years, though it is far from complete, and offers some promising new directions for the development of stakeholder theory.

## 2. Early History

After studying philosophy at Washington University I accepted an appointment on the research staff at The Wharton School, University of Pennsylvania, with a research group called the Busch Center, and then rapidly moved to a new group called the Wharton Applied Research Center (WARC). The mission of WARC under the leadership of James R. Emshoff was to serve as Wharton's "window to the world" to connect Wharton faculty with managers who had real problems to solve. We organized ourselves by project teams, much like a traditional consulting firm (Emshoff had been with McKinsey and Co.), and by "development areas" which were conceptual spaces where we wanted to develop both expertise and new clients to try out our ideas.

---

\* Prof. R. Edward Freeman PhD, The Darden School, University of Virginia 100 Darden BLVD. Charlottesville, Virginia, Fax: ++(1) 434 924-6378, Voice: ++(1)434 924-0935, E-Mail: freemanE@Darden.virginia.edu.

## 2.1 Original Papers and Teaching

I began to work on the stakeholder concept in conjunction with Emshoff at about the time that AT&T, then the Bell System, asked us to develop an executive education program that would help their “leaders of the future” understand and manage the external environment. We developed a one week module using the stakeholder idea that included two papers and several cases, as well as a “stakeholder simulation”. The development of these ideas and initial piloting took place over the last half of 1977 and all of 1978. The first paper was a conceptual paper laying out the argument for why managers needed to think about stakeholders. We defined “stakeholder” in a broad strategic sense as “any group or individual that can affect or is affected by the achievement of a corporation’s purpose”. While this definition has been the subject of much debate in the ensuing years, the basic idea was simple. We were taking the viewpoint of senior management and our view was that if a group of individual could affect the firm (or be affected by it, and reciprocate) then managers should worry about that group in the sense that it needed an explicit strategy for dealing with the stakeholder. This executive program at AT&T led to a number of projects with the executives who attended and their teams where we developed the stakeholder approach that I outlined in *Strategic Management: A Stakeholder Approach* written in the summer of 1982 and published in 1984. I was especially concerned to show how the stakeholder idea originated – not with me and not at Wharton, but many years earlier at the Stanford Research Institute. Chapter 2 of that book tries to set out the intellectual history of the concept. Giles Slinger has redone this history in a much more complete fashion, and many scholars such as Lee Preston have pointed out the intellectual history of the concept goes far beyond the use of the word ‘stakeholder’. The second paper was a set of “tools and techniques” that we believed that managers would find useful. This paper became the basis for the middle chapters of the book that focused on the techniques and applications of the stakeholder idea.

I spent most of my time from 1978 until 1983 teaching executives and working with them to develop very practical ways of understanding how they could be more effective in their relationships with key stakeholders. I knew that a concern with purpose, values, and responsibility were important ideas, but it did not occur to me that one could meaningfully talk about these ideas outside of the context of the business as a whole. Therefore, when the main academic audience for my ideas became people who taught Business and Society or Corporate Social Responsibility or Business Ethics I was surprised. I had originally thought that the main academic audience would be strategy professors. After all, the original idea behind *Strategic Management: A Stakeholder Approach* was to publish it as a textbook in strategic management.

## 3. The Main Logic of “Strategic Management: A Stakeholder Approach”

The point of the book was and remains very clear to me – how could executives and academics think about strategy or strategic management if they took the stakeholder concept seriously, or as the basic unit of analysis of whatever framework they applied? The basic insight was to suggest that a more useful unit of analysis for thinking about strategy was the stakeholder relationship, rather than the tasks of “formulating, implementing, evaluating, etc.” or the idea of “industry”, or the other myriad ideas of the

times. I took this to be a matter of common sense and practicality, rather than some deep academic insight. The executives that I was working with found thinking about stakeholder relationships very helpful for dealing with the kinds of change that was confronting their corporations.

### **3.1 The Basic Philosophical Approach**

The approach of the book was modeled after what I took to be some of the best writing I had encountered that tried to interweave clinical cases and facts with the development of insights and ideas. So, I relied on the “clinical cases” I had worked on with a number of companies over these years, as well as my reading of the business press, case studies written by others, and my conversations with other people (experts) worried about the same phenomena. Again, I was trained as a philosopher, so what was important to me was the overall logic of the argument. I found the insistence by some colleagues on empirical methods and an obsession with “methodology” to be highly amusing and full of logic mistakes. Surely the insights of thinkers like Freud or Harry Levinson in management, or Graham Allison in politics, did not become questionable because of their methods, but because of their logic. The continued obsession with what Richard Rorty has called “methodolatry” continues even in this world of critical studies, post-modernism, pragmatism, and other assorted post-positivist justifications of intellectual activity. In a recent paper I was criticized for not having a theory that is “empirically testable”, as if “theory” and “evidence” can ever be sorted into separate buckets after Quine wrote his famous “Two Dogmas of Empiricism” article in 1953. So, I confess to paying no attention to methods. Perhaps if I had kept careful notes, interview transcripts, had a panel of experts sort all of the “data”, I could have gained even more insight into the phenomena of businesses trying to deal with stakeholder relationships. However, I thought that all of this stuff was just silly window dressing. I never had interest in the question, “Are you doing something that is descriptive of the way companies act, or are you prescribing how they should act, or are you suggesting that if they act in this way it will lead to these results?” Donaldson and Preston (1995) have suggested that stakeholder theory can be separated into descriptive, prescriptive, and instrumental categories. I thought I was doing all three and that any good theory or narrative ought to do all three. In short the stakeholder approach has always been what Donaldson and Preston have called “managerial”. There is more than adequate philosophical justification for such an approach and Andy Wicks and I (1998) have tried to set forth such a pragmatist “methodology”.

### **3.2 Implications, Misinterpretations, and Fixing the Major Weaknesses of the Book**

#### **3.2.1 The Basic Argument**

I saw and continue to see this managerial approach to stakeholder theory as rooted in the practical concerns of managers – how could they be more effective in identifying, analyzing and negotiating with key stakeholder groups? I would summarize the book in the following logical schemata:

- (1) No matter what you stand for, no matter what your ultimate purpose may be, you must take into account the effects of your actions on others, as well as their potential effects on you.
- (2) Doing so means you have to understand stakeholder behaviors, values, and backgrounds/contexts including the societal context. To be successful over time it will be better to have a clear answer to the question “what do we stand for”.
- (3) There are some focal points that can serve as answers to the question “what do we stand for” or Enterprise Strategy. (The book laid out a typology which no one ever took seriously.)
- (4) We need to understand how stakeholder relationships work at three levels of analysis: the Rational or “organization as a whole”; the Process, or standard operating procedures; and the Transactional, or day to day bargaining. (These levels are just the three levels in Graham Allison’s *Missiles of October*.)
- (5) We can apply these ideas to think through new structures, processes, and business functions, and we can especially rethink how the strategic planning process works to take stakeholders into account.
- (6) Stakeholder interests need to be balanced over time.

### 3.2.2 Implications of the Basic Argument

There are a number of implications of this argument. If it is correct, then the idea of “corporate social responsibility” is probably superfluous. Since stakeholders are defined widely and their concerns are integrated into the business processes, there is simply no need for a separate CSR approach. Social Issues Management or “issue” is simply the wrong unit of analysis. Groups and individuals behave, not issues. Issues emerge through the behavior and interaction of stakeholders, therefore “stakeholders” is a more fundamental and useful unit of analysis. Finally, the major implication of this argument, which cannot be overemphasized today given the development of stakeholder theory, is that “stakeholders are about the business, and the business is about the stakeholders”.

### 3.2.3 Misinterpretations of the Basic Argument

There have been many misinterpretations of the basic argument, many of which are due to my own shortcomings and the way that the book was written. In fact, recently Robert Phillips, Andrew Wicks and I (2003) have published a paper entitled “What Stakeholder Theory is Not” to try and address some of these misinterpretations and myths. Some of the more obvious misinterpretations are: (1) Stakeholders are critics and other non-business entities; (2) There is a conflict between shareholders, and the other stakeholders; and, (3) the stakeholder concept can and should be used to formulate a new, non-shareholder theory of the firm. Obviously (1) completely cuts against both the actual formulation of the theory and the spirit in which it was developed. Andrew Wicks, Bidhan Parmar and I (2004) have recently offered a rebuttal of (2), since shareholders are stakeholders, and the whole point is that stakeholder interests have to move in the same general direction over time. (3) is a trickier matter, and I have published a number of papers in which it seems I am claiming that there is one

univalent “stakeholder theory” that will work for all businesses. However, I believe that it is more useful to consider “stakeholder theory” as a genre (Freeman 1994). There may be many particular “stakeholder narratives”, and indeed that is the original insight behind “enterprise strategy”. Surely there are lots of ways to run a firm. All of these ways have to ultimately generate profits and satisfy some set of stakeholders, but context and other factors may well determine which kind of narrative works best.

### 3.3 Major Weaknesses of the Book

While I believe that much of the basic logic of the book is still valid, especially if the misinterpretations are clarified, there are several obvious weaknesses of the book. First of all much of the language of the book is couched in the idiom of strategic planning in general, and Lorange and Vancil’s version of strategic planning in particular. Lorange was at Wharton at the time and I was heavily influenced by his ideas. Therefore, there is far too much “process-speak” and far too much “consultant-speak”, both of which have served as a barrier to understanding the basic idea. Second, the book was overly analytical. Henry Mintzberg seems never to tire of repeating the criticism that I seem to believe that if we draw the stakeholder maps accurately enough and model and predict their behavior; we can cast out uncertainty from the strategic thinking process. While this was never my aim, I do understand how Mintzberg and others read this into the work. I simply wanted to suggest that we could think about stakeholders systematically. Obviously there are limits to our ability to analyze, and just as obviously we can use analysis to hide behind, rather than going out and actively creating capabilities for dealing with stakeholders. Again, part of this weakness, I believe, comes from the reliance on the strategic planning literature of the time. Third, there is a tension in the writing of the book between “managerial thinking” and “academic thinking”. I believe that chapter 2 could only be interesting to academics, and that chapters 5 and 6 could only be interesting to executives who were trying to “do it”. I’m afraid that this tension served neither audience very well. Fourth, I have come to believe that questions of purpose, values, ethics, and other elements of which I crudely following Drucker called “enterprise strategy” are far more important than I originally anticipated. Strategic management as a field universally ignored these issues for years, and many continue to do so today. Once I came to see this as perhaps the most important part of the book, I undertook to write what I hoped was a sequel to the book with Daniel R. Gilbert, Jr., entitled *Corporate Strategy and the Search for Ethics*. Unfortunately almost no one reads or refers to that book today. Fifth, there was a missing level of analysis. I said virtually nothing about how business or capitalism would look if we began to understand it as consisting of “creating value for stakeholders”. A number of papers with sociologist, William Evan, began to explore these issues, but they had a rather Kantian turn that I have now gladly forsaken. Sixth, there is too much concern with structure in the book. While I still find some of the insights about corporate governance interesting, the chapters on recasting the functions of business along stakeholder lines were misguided. The underlying issue is the separation of business and ethics in the foundational disciplines of business, not the practical organization and working of these disciplines. I’m certain there are even more flaws,

bad writing, mistakes, and bad ideas in the book, but these are at least some of the major weaknesses from my point of view.

### 3.4 Fixing the Weaknesses

Since I am currently engaged in the process of rewriting *Strategic Management: A Stakeholder Approach*, I want to suggest what my current thinking is, and how I'm going about this new project. First of all there will be two books, both of them will be written by a team consisting of Freeman, Jeffrey Harrison, Robert Phillips, and Andrew Wicks. The initial book is tentatively titled, *Managing For Stakeholders: Business in the 21<sup>st</sup> Century*. It is written purely for managers and executives. There will be no academic arguments, not much discussion of the finer points of how stakeholders are defined, and no mention of most of the literature and debates that has developed over the last 20 years. The basic argument remains intact except that given the changes wrought by globalization, information technology, and the recent ethics related scandals, there is more urgency in adopting a stakeholder approach to value creation and trade (our name for "business"). We spend a fair amount of time laying out the argument that concern for stakeholders is just what the business is about. We suggest that there is a "stakeholder mindset" that consists of a number of key principles that more clearly guide the implementation of stakeholder thinking. We connect the stakeholder idea to ethics and values, very explicitly by suggesting that one of the key questions of enterprise strategy is how does your firm make each stakeholder better off, and what are you doing to improve any tradeoffs that may exist between stakeholders. We distill the process and techniques of the earlier book and our experiences over the last 20 years, into 8 techniques for creating value for stakeholders. Then we end with an explicit call for "ethical leadership" that is required by the stakeholder mindset. We are hoping to include an appendix with FAQs that will prevent a number of the misinterpretations of the first book. The second book is tentatively titled, *Stakeholder Theory: The State of the Art*. We plan for this book to be "everything a doctoral student ever wants to know about stakeholder theory". We will cover a number of disciplines, from law to marketing, including some outside the mainstream of business such as healthcare and public administration. We plan to both summarize and evaluate the research that has been done, and to suggest what some interesting avenues of research might be. I want to emphasize, as I tried to do in my earlier book, that the thinking on which these books are based has been done by many people, academics and executives alike, over many years. What we are trying to do is to distill this thinking into a useful form, and in doing so continue in the spirit of the early founders of the idea. With that in mind I want to set forth some of the developments by a host of scholars who have taken the stakeholder concept and placed it squarely in the mainstream of management thinking, though I want to caution that this section is very abbreviated and incomplete.

## 4. Stakeholder Theory Since 1984

Since 1984 academic interest in a stakeholder approach has both grown and broadened. Indeed the number of citations using the word stakeholder has increased enormously as suggested by Donaldson and Preston (1995). Most of the research on the stakeholder concept has taken place in four sub-fields: normative theories of business;

corporate governance and organizational theory; corporate social responsibility and performance; and, strategic management.<sup>1</sup>

#### 4.1 A stakeholder approach to normative theories of business

A stakeholder approach emphasizes the importance of investing in the relationships with those who have a stake in the firm. The stability of these relationships depends on the sharing of, at least, a core of principles or values. Thus, stakeholder theory allows managers to incorporate personal values into the formulation and implementation of strategic plans. An example of this is the concept of an enterprise strategy. An enterprise strategy (Schendel/Hofer 1979, building on Drucker) describes the relationship between the firm and society by answering the question “What do we stand for?” In its original form a stakeholder approach emphasized the importance of developing an enterprise strategy, while leaving open the question of which type of values are the most appropriate. “It is very easy to misinterpret the foregoing analysis as yet another call for corporate social responsibility or business ethics. While these issues are important in their own right, enterprise level strategy is a different concept. We need to worry about the enterprise level strategy for the simple fact that corporate survival depends in part on there being some “fit” between the values of the corporation and its managers, the expectations of stakeholders in the firm and the societal issues which will determine the ability of the firm to sell its products.” (Freeman 1984: 107) However, the illustration that values are an essential ingredient to strategic management has, indeed, set in train an inquiry into the normative roots of stakeholder theory.

Donaldson and Preston (1995) argued that stakeholder theories could be categorized from descriptive, instrumental or normative points of view. A descriptive theory would simply illustrate that firms have stakeholders, an instrumental theory would show that firms who consider their stakeholders devise successful strategies; a normative theory would describe why firms should give consideration to their stakeholders. Thus, the search for a normative justification for stakeholder takes the theory beyond strategic issues and into the realm of philosophical foundations.

The question this research stream is trying to answer is “above and beyond the consequences of stakeholder management, is there a fundamental moral requirement to adopt this style of management?” Various attempts have been made to ground stakeholder management in a broad range of philosophical foundations. Evan and Freeman (1993) developed a justification of a stakeholder approach based on Kantian principles. In its simplest form this approach argued that we are required to treat people “as ends unto themselves.” Thus, managers should make corporate decisions respecting stakeholders’ well being rather than treating them as *means to a corporate end*. This framework has been further developed by Norman Bowie (1999) into a fully fledged ethical theory of business. From a different perspective Phillips (1997) has grounded a stakeholder approach in the principle of fairness. When groups of individuals enter

---

<sup>1</sup> Portions of this section are from R. Edward Freeman and John McVea (2001): “Stakeholder Theory: The State of the Art” in M. Hitt, E. Freeman, and J. Harrison (eds.): *The Blackwell Handbook of Strategic Management*, Oxford: Basil Blackwell. I am grateful to my co-author and my co-editors and publishers for permission to include this material here.



voluntarily into cooperative agreements they create an obligation to act fairly. As such, normal business transactions create a moral obligation for firms to treat stakeholders fairly and thus to consider their interests when making strategic decisions. Others (Wicks/Freeman/Gilbert 1994; Burton/Dunn 1996) have tried to justify a stakeholder approach through the ethics of care. Contrasting the traditional emphasis on an individual rights-based approach to business, an ethics of care emphasizes the primacy of the network of relationships that create the business enterprise. This approach advocates the use of a stakeholder approach because of the need to formulate strategy in the context of the relationships that surround it, rather than with the firm as a lone actor. Finally, Donaldson and Dunfee (1999) have developed a justification for a stakeholder approach that is based on social contract theory.

Recently, Kochan and Rubenstein (2000) have developed a normative stakeholder theory based on an extensive study of the Saturn automotive manufacturer. In this study they try and answer the question "Why should stakeholder models be given serious consideration at this moment in history." For Kochan and Rubenstein this is both a normative and positive inquiry "and one that requires research that both explicates the normative issues and poses the theoretical questions in ways that promote tractable empirical research" (2000). They conclude that stakeholder firms will emerge when the stakeholders hold critical assets, expose these assets to risk and have both influence and voice. However, stakeholder firms will only be sustainable when leaders' incentives encourage responsiveness to stakeholders and when stakeholder legitimacy can overcome society's skeptical ideological legacy towards stakeholder management.

#### **4.2 A stakeholder approach to corporate governance and organizational theory**

This stream of stakeholder research has grown out of the contrast between the traditional view that it is the fiduciary duty of management to protect the interests of the shareholder and the stakeholder view that management should make decisions for the benefit of all stakeholders. Williamson (1984) used a transaction cost framework to show that shareholders deserved special consideration over other stakeholders because of "asset specificity." He argued that a shareholder's stake was uniquely tied to the success of the firm and would have no residual value should the firm fail, unlike, for example, the labor of a worker. Freeman and Evan (1990) have argued, to the contrary, that Williamson's approach to corporate governance can indeed be used to explain all stakeholders' relationships. Many other stakeholders have stakes that are, to a degree, firm specific. Furthermore, shareholders have a more liquid market (the stock market) for exit than most other stakeholders. Thus, asset specificity alone does not grant a prime responsibility towards stockholders at the expense of all others.

Goodpaster (1991) outlined an apparent paradox that accompanies the stakeholder approach. Management appears to have a contractual duty to manage the firm in the interests of the stockholders and at the same time management seems to have a moral duty to take other stakeholders into account. This stakeholder paradox has been attacked by Boatright (1994) and Marens and Wicks (1999) and defended by Goodpaster and Holloran (1994). Others have explored the legal standing of the fiduciary duty of management towards stockholders, Orts (1997), Blair (1995). Many of these debates are on-going, with some advocating fundamental changes to corporate govern-

ance and with others rejecting the relevance of the whole debate to a stakeholder approach.

There have also been a number of attempts to expand stakeholder theory into what Jones (1995) has referred to as a 'central paradigm' that links together theories such as agency theory, transactions costs and contracts theory into a coherent whole (Jones 1995; Clarkson 1995). From this perspective stakeholder theory can be used as a counterpoint to traditional shareholder-based theory. While it is generally accepted that stakeholder theory could constitute good management practice, its main value for these theorists is to expose the traditional model as being morally untenable or at least too accommodating to immoral behaviour. This literature has historically consisted of fractured collection of viewpoints that share an opposition to the dominant neoclassical positive approach to business. Because of its accommodating framework the stakeholder concept provided an opportunity to develop an overarching theory that could link together such concepts as agency theory, transactions costs, human relationships, ethics and even the environment. More recently Jones and Wicks (1999) have explicitly tried to pull together diverging research streams in their paper "Convergent Stakeholder Theory."

#### **4.3 A stakeholder approach to social responsibility and social performance**

A significant area of interests for theorists of social responsibility has been the definition of legitimate stakeholders. It has been stated that "one glaring shortcoming is the problem of stakeholder identity. That is, that the theory is often unable to distinguish those individuals and groups that are stakeholders from those that are not" (Phillips/Reichart 1998). Mitchell, Agle and Wood addressed this issue by developing a framework for stakeholder identification. Using qualitative criteria of power, legitimacy and urgency, they develop what they refer to as "the principle of who and what really counts." This line of research is particularly relevant in areas such as the environment and grassroots political activism. The critical question is whether there is such a thing as an illegitimate stakeholder, and if so how legitimacy should be defined. Agle, Mitchell and Sonnenfeld (2000) have taken an opposite approach. Rather than try and theoretically define stakeholder legitimacy, they have conducted an empirical study to identify which stakeholders managers actually consider to be legitimate.

A large body of research has been carried out in order to test the 'instrumental' claim that managing for stakeholders is just good management practice. This claim infers that firms that practice stakeholder management would out perform firms that do not practice stakeholder management. Wood (1995) pointed out that causality is complex, the relationship between corporate social performance (CSP) and financial performance is ambiguous, there is no comprehensive measure of CSP and that the most that can be demonstrated with current data is that "bad social performance hurts a company financially."

It has often been hypothesized that firms who invest in stakeholder management and improve their social performance will be penalized by investors who are only interested in financial returns. This has been referred to as 'the myopic institutions theory.' Graves and Waddock (1990) have demonstrated the growth in importance of institutional stakeholders over the last twenty years. On further investigation they found that firms

that demonstrated a high level of corporate social performance (CSP) tends to lead to an increase in the number of institutions that invest in the stock (Graves/Waddock 1994). This result is “consistent with a steadily accumulating body of evidence that provides little support for the myopic institutions theory” (Graves/Waddock 1994).

A range of recent studies have been carried out using new data and techniques to try and shed light on the links between stakeholder management and social and financial performance (Berman/Wicks/Kotha/Jones 1999; Harrison/Fiet 1999; Luoma/Goodstein 1999). At a more practitioner level Ogden and Watson (1999) have carried out a detailed case study into corporate and stakeholder management in the UK water industry. At present most conclusions in this area are somewhat tentative as the precision of techniques and data sources continue to be developed.

#### **4.4 A stakeholder approach to strategic management**

Harrison and St John (1994) have been the leaders in developing an integrated approach with many of the conceptual frameworks of mainstream strategy theory. In their words “[stakeholder management] combines perspectives from other traditional models such as industrial organization economics, resource-based view, cognitive theory, and the institutional view of the firm.”

They distinguish between stakeholder analysis and stakeholder management. Stakeholder management is built on a partnering mentality that involves communicating, negotiating, contracting, managing relationships and motivating. These different aspects of stakeholder management are held together by the enterprise strategy which defines what the firm stands for. Ethics are a part of these processes, first, because unethical behavior can have high costs and second, because codes of ethics provide the consistency and trust required for profitable cooperation.

Harrison and St John are able to combine traditional and stakeholder approaches because they use the stakeholder approach as an overarching framework within which traditional approaches can operate as strategic tools. For example, they divide the environment into the operating environment and the broader environment. Within the operating environment the ‘resource based view of the firm’ can operate as a useful framework to study the relationships of internal stakeholders such as management and employees. Equally Porter’s five-force model (Porter 1998) can be used to shed light on the relationships of many external stakeholders such as competitors and suppliers. However, strategic management does not stop at this analytical/ descriptive phase. Prioritizing stakeholders is more than a complex task of assessing the strength of their stake on the basis of economic or political power. The values and the enterprise strategy of a firm may dictate priorities for particular partnerships and discourage others. Thus, a stakeholder approach allows management to infuse traditional strategic analysis with the values and direction that are unique to that organization.

#### **4.5 Some Promising Future Developments**

There are many promising developments in stakeholder theory. The purpose of this section is to set forth a few of these ideas and point the reader to this emerging literature. Sandra Waddock and a number of colleagues have used the stakeholder idea as

one of the conceptual centerpieces for their work on corporate citizenship, and have been involved with a number of NGOs, such as the United Nations, to develop a consensus around a set of stakeholder principles that corporations could adopt voluntarily. A compendium of essays, *Understanding Stakeholder Thinking* (Andriof/Waddock/Husted/Rahman 2002) is a good starting point for this very promising work. Jeanne Liedtka, Laura Dunham and I have suggested that citizenship may well be a problematic concept if it is restricted to an analysis of the “community” stakeholder, and Waddock may well offer a way out of this morass. “Community” may well be the “soft underbelly” of stakeholder theory since it is very difficult to pin down a meaning in today’s world which is nearly absent of a “sense of place” (Liedtka/Dunham/Freeman 2004).

Andrew Wicks and Bidhan Parmar have suggested that one of the central tasks of both stakeholder theory and business ethics is to put “business” and “ethics” together in a coherent and practical way (Wicks/Freeman/Parmar 2004). Kirsten Martin has suggested that the separation of business and ethics which is so central to the stakeholder debate needs to be expanded to take the role of technology into account in an explicit manner (Martin/Freeman, forthcoming). Venkataraman (2002) has argued that thinking about entrepreneurship would hasten this combination, strengthening both stakeholder theory and entrepreneurship as important fields of inquiry.

Open questions remain. For instance:

- (1) Is there a useful typology of enterprise strategy or answers to questions of purpose?
- (2) How can we understand the relationship between fine-grained narratives of how firms create value for stakeholders, and the idea of stakeholder theory as a genre or set of loosely connected narratives?
- (3) If we understand business, broadly, as “creating value for stakeholders” what are the appropriate background disciplines? And, in particular what the connections between the traditional “social sciences” and “humanities”?
- (4) How can the traditional disciplines of business such as marketing and finance develop conceptual schemes that do not separate “business” from “ethics” and can the stakeholder concept be useful in developing these schemes?
- (5) If we understand “business”, broadly, as “creating value for stakeholders”, under what conditions is value creation stable over time?
- (6) Can we take as the foundational question of political philosophy, “how is value creation and trade sustainable over time” rather than “how is the state justified”?

I am certain that there are many additional research questions, and many more people working on these questions than I have mentioned here. I hope this paper has clarified some of my own writing in the stakeholder area, and provoked others to respond.

## References

- Andriof, J./Waddock, S./Husted, B./Rahman S. (eds.)* (2002): *Unfolding stakeholder thinking*. Sheffield, UK. Greenleaf Publishing Limited.
- Berman, S./Wicks, A./Kotha, S./Jones, T.* (1999): Does stakeholder orientation matter: The relationship between stakeholder management models and firm financial performance, in: *Academy of Management Journal*, 42/5, 488-506.
- Blair, M.* (1995): Whose interests should be served?, in: Clarkson, Max. *Ownership and control: rethinking corporate governance for the twenty first century*, Washington, DC: The Brookings Institution, 202-234.
- Boatright, J.* (1994): Fiduciary duties and the shareholder-management relation: Or, what's so special about shareholders?, in: *Business Ethics Quarterly*, 4, 393-407.
- Bowie, N.* (1999): *Business ethics: a kantian perspective*. Oxford: Blackwell's.
- Burton, B./Dunn, C.* (1996): Collaborative control and the commons: Safeguarding employee rights, in: *Business Ethics Quarterly*, 6, 277-288.
- Clarkson, M.* (1995): A stakeholder framework for analyzing and evaluating corporate social performance, in: *Academy of Management Review*, 20/1, 92-117.
- Donaldson, T./Dunfee, T.* (1999): *Ties that bind: a social contracts approach to business ethics*, Boston: Harvard Business School Press.
- Donaldson, T./Preston, L.* (1995): The stakeholder theory of the corporation: concepts, evidence, and implications, in: *Academy of Management Review*, 20/1, 65-91.
- Drucker, P.* (1980): *Managing in turbulent times*, New York: Harper and Row.
- Dunham, L./Liedtka, J./Freeman R. E.* (Forthcoming): Enhancing stakeholder practice: a particularized exploration of community, Darden School Working Paper.
- Emsboff, J.* (1978): *Managerial breakthroughs*, New York: AMACOM.
- Freeman, R. E./Evan, W.* (1990): Corporate governance: a stakeholder interpretation. In: *The Journal of Behavioral Economics*, 19/4, 337-59.
- Evan, W./Freeman, R. E.* (1993): A stakeholder theory of the modern corporation: kantian capitalism, in: Beauchamp, T. & Bowie, N.: *Ethical theory and business*, 5<sup>th</sup> edition, Englewood Cliffs: Prentice Hall.
- Freeman, R. E.* (1984): *Strategic management: a stakeholder approach*, Boston: Pitman.
- Freeman, R. E./Gilbert, D.* (1988): *Corporate Strategy and the search for Ethics*, Englewood Cliffs, New Jersey: Prentice Hall Inc.
- Goodpaster, K.* (1991): Business ethics and stakeholder analysis, in: *Business Ethics Quarterly*, 1, 53-73.
- Goodpaster, K./Holloran, T.* (1994): In defense of a paradox, in: *Business Ethics Quarterly*, 4, 423-430.
- Graves, S./Waddock S.* (1990): Institutional ownership and control: implications for long-term corporate performance, in: *Academy of Management Executive*, Vol. 37, 1034-46.
- Graves, S./Waddock, S.* (1994): Institutional owners and corporate social performance, in: *Academy of Management Journal*, 37/4: 1034.
- Harrison, J./Fiet, J.* (1999): New CEOs pursue their own self-interests by sacrificing stakeholder values, in: *Journal of Business Ethics*, 19: 301-308.
- Harrison J. S./St John C. H.* (1994): *Strategic management of organizations and stakeholders*, St. Paul: West Publishing Company.

- Jones, T.* (1995): Instrumental stakeholder theory: a synthesis of ethics and economics, in: *Academy of Management Review*, 20, 92-117.
- Jones, T./Wicks, A.* (1999): Convergent stakeholder theory, in: *Academy of Management Review*, 24, 206-221.
- Kochan, T./Rubenstein* (2000): Towards a stakeholder theory of the firm: The Saturn Partnership, in: *Organizational Science*, 11/4, 367-386.
- Lorange, P.* (1983): Strategic Control, in Lamb, R. (ed.): *Latest Advances in Strategic Management: A new view of Business policy and planning*, Boston: Little Brown and Co., 226-241.
- Luoma, P./Goodstein, J.* (1999): Stakeholders and corporate boards: institutional influences on board composition and structure, in: *Academy of Management Journal*, 42, 553-563.
- Marens/Wicks, A.* (1999): Getting real: stakeholder theory, managerial practice, and the general irrelevance of fiduciary duties owed to shareholders, in: *Business Ethics Quarterly*, 2, 273-293.
- Mintzberg, H.* (1994): *The rise and fall of strategic planning: reconceiving roles for planning, plans, and planners*, New York: The Free Press.
- Mitchell, R./Agle, B./Wood D.* (1997): Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts, in: *Academy of Management Review*, 22, 853-886.
- Ogden, S./Watson, R.* (1999): Corporate performance and stakeholder management: balancing shareholder and customer interests in the U.K. privatized water industry, in: *Academy of Management Journal*, 42, 526-538.
- Orts, E.* (1997): A north american legal perspective on stakeholder management theory, in: Patfield, F. (ed.): *Perspectives on company law*, 2, 165-179.
- Phillips, R.* (1997): Stakeholder theory and a principle of fairness, in: *Business Ethics Quarterly*, 7, 51-66.
- Phillips, R./Reichart, J.* (1998): The environment as a stakeholder: a fairness-based approach, in: *Journal of Business Ethics*, 23(2), 185-197.
- Phillips, R./Freeman, R. E./Wicks, A.* (2003): What stakeholder theory is not, in: *Business Ethics Quarterly*, 4, 479-502.
- Porter, M.* (1998): *Competitive advantage*, New York: The Free Press.
- Preston, L.* (1986): *Social issues and public policy in business and management: retrospect and prospect*, College Park: University of Maryland College of Business and Management, 3-4.
- Schendel, D./Hofer, C. (eds.)* (1979): *Strategic management: A new view of business policy and planning*, Boston: Little Brown.
- Quine, W. V. O.* (1953): Two dogmas of empiricism, in: *From a Logical Point of View*, Cambridge, MA, Harvard University Press, 20-46.
- Slinger, G.* (1998): *Spanning the gap: the theoretical principles connecting stakeholder policies to business performance*. Centre for Business Research, Department of Applied Economics, Working Paper, University of Cambridge.
- Slinger, G.* (2001): *Stakeholding and takeovers: three essays*, University of Cambridge Doctoral Thesis, Department of Applied Economics.
- Wicks, A./Freeman, R. E./Gilbert, D.* (1994): A feminist reinterpretation of the stakeholder concept, in: *Business Ethics Quarterly*, 4, 475-497.
- Wicks A./Freeman R. E.* (1998): Organization studies and the new pragmatism: positivism, anti-positivism, and the search for ethics, in: *Organization Science*, 9(2), 123-140.

- Wicks, A./Freeman, R. E./Parmar, B.* (2004): The corporate objective revisited, in: *Organization Science*, 15(3), 364-369.
- Wicks, A./Freeman, R. E./Parmar, B.* (forthcoming): Business ethics in an era of corporate crisis, Darden School Working paper.
- Venkataraman, S.* (2002): Stakeholder equilibration and the entrepreneurial process, in: *Freeman, R. E./Venkataraman, S. (eds.): The Ruffin Series 3, Ethics and Entrepreneurship*, Philosophy Documentation Center. Charlottesville, VA, 45-57.
- Williamson, O.* (1984): *The economic institutions of capitalism*. New York: Free Press.
- Wood, D.* (1995): The fortune database as a CSP measure, in: *Business and Society*, 24(2), 197-198.